



**Actuarial & Employer Services Branch**

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August 19, 2008

**AGENDA ITEM 4a**

**TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

- I. SUBJECT:** Actuarial Assumption Model for Other Post Employment Benefits (Including Post-Retirement Medical) – Revision to Existing Model
- II. PROGRAM:** Actuarial & Employer Services and Health Benefits
- III. RECOMMENDATION:** Staff recommends that the Board adopt revisions to the CalPERS Other Post Employment Benefits (OPEB) Assumption Model.
- IV. ANALYSIS:**

In November 2006, the CalPERS Board adopted the CalPERS Other Post Employment Benefits (OPEB) Assumption Model. In August 2007, the Board adopted revisions to the model.

The assumption model is used in actuarial valuations by employers who choose to pre-fund their OPEB obligations through the California Employers' Retiree Benefit Trust (CERBT).

Under Statement No. 43 of the Governmental Accounting Standards Board (GASB), once CalPERS receives contributions to pre-fund OPEB obligations then CalPERS is required to report those obligations on CalPERS' financial statements. Having a standard assumption model for employers is essential for the proper reporting of OPEB obligations on CalPERS' financial statements.

The assumption model was prepared by CalPERS staff actuaries but reflected the consensus of representatives of five different actuarial consulting firms.

The assumption model was developed in a way to ensure some of the actuarial assumptions and methods like the expected annual inflation rate and investment

return were dictated but it was also designed to provide flexibility in areas where it was felt necessary and appropriate. These areas included most, if not all, of the demographic assumptions and also the medical trend rate assumptions.

Since the adoption of the model, other outside consulting actuaries have been using the model to perform OPEB actuarial valuations for employers wishing to invest in the CERBT. Since the inception of the CERBT, CalPERS has received over 100 actuarial valuations for employers wishing to join the CERBT.

In August 2007, the CalPERS Board approved changes to the OPEB assumption model that provided additional flexibility for actuaries performing OPEB actuarial valuations.

Over the course of the last 12 months, CalPERS staff continued to have discussions with several other outside consulting actuaries on the interpretation of the model and the range of acceptable assumptions and methods. CalPERS organized a web conference on July 25, 2008 to discuss the existing assumption model.

In addition, GASB issued new implementation guidelines that indicated that further flexibility in the assumption model would be acceptable. As a result, it was decided that an additional change should be made to provide additional flexibility.

The following change is proposed:

- Under Actuarial Cost Method, we are adding flexibility by permitting the use of the Projected Unit Credit (service pro-rate) method. This was deemed appropriate since many of the small actuarial firms currently performing OPEB valuation are only set up to provide actuarial figures using the Projected Unit Credit method. Forcing these firms to only use the Entry Age Normal Cost method would have resulted in higher fees paid by employers wanting to join the CERBT. Also, recent guidelines issued by GASB clearly state that it is acceptable for multi-employer trust fund like the CERBT to report figures based on both the Entry Age Normal Cost method and the Projected Unit Credit method.

A copy of the revised assumption model is included as Attachment 1. A version of the model showing the changes from the prior version is included as Attachment 2.

## **V. STRATEGIC PLAN:**

This item supports Enterprise Goal I: Exercise global leadership to ensure the sustainability of CalPERS' pension and health benefits systems.

**VI. RESULTS/COSTS:**

There are no costs to CalPERS associated with this item. There are potential cost savings to employers if their consulting actuaries charge less for Projected Unit Credit valuations. In addition, employers who elect to pre-fund their OPEB obligations will see savings resulting from investment earnings.

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Attachments